



San Diego City Attorney **MICHAEL J. AGUIRRE**

NEWS RELEASE

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CITY ATTORNEY'S PLAN TO RESOLVE THE CITY'S LEGAL, ACCOUNTING, AND FINANCIAL CRISIS

San Diego City Attorney Michael Aguirre released a fifteen point recovery plan to resolve the City's legal, accounting and financial crisis. It's intended to move the City forward simultaneously on several fronts while the Audit Committee completes its work.

1. The City of San Diego (City) will accept findings that, in connection with the offer and sale of certain City bonds and with its continuing disclosures, it made material misstatements of fact and omitted certain facts necessary to render those stated facts not misleading. The omitted and misstated information relates to the City's pension system and other financial information and to its wastewater rate structure.
2. In order to resolve all unsettled issues concerning federal securities laws, the City Attorney will work with the SEC to prepare a consent decree on behalf of the City and the SEC and the City Council in its governmental capacity and the SEC. Individuals, including members of the City Council, subject to SEC investigation must resolve any personal issues with the SEC separately.
3. The City will continue to retain Kroll Associates (Audit Committee) and Willkie Farr & Gallagher so that they may complete their investigations of City officials and, under the direction of the SEC, implement remedial changes.
4. The City will retain Macias Gini & Co. to work with KPMG to complete the audit of the City's 2003 and any restatement of the City's 2002 financial statements. (Macias Gini & Co. has already been hired to audit the City's 2004 and 2005 financial statements.)
5. The City will direct the City Auditor to cease recognizing illegal pension benefits accumulated by City employees who have not retired as of 1 August 2005. On behalf of the City, the City Attorney will prosecute civil actions necessary to resolve issues regarding illegal pension benefits.
6. The City will seek, according to equitable principles, a settlement with City employees who hold illegal benefit claims and who retired after 1 July 1997, and before 1 August 2005. Neither the City nor the City Attorney will take any actions regarding employees who retired before 1 July 1997.

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7. The City Council will place on the June 2006 primary election ballot a Charter amendment that was recommended by the Pension Reform Committee to change the pension board's composition so that it will consist of seven independent members.
8. Pending any such Charter change, the City Council will remove the current pension board members and appoint seven new independent members who will:
 - a. Replace the pension board Administrator;
 - b. End the payment of illegal pension benefits;
 - c. Require the City to pay all legal benefits and to make actuarially required annual payments into the system; and
 - d. Restore the City Attorney as counsel for the pension board.
9. In order to both secure a release from the subject parties and lessen the hardship caused by the elimination of illegal pension benefits, the City Council will consider conferring replacement benefits on City retirees and current City employees. This provision will be subject to adoption of the revenue enhancement plan described below.
10. The City Council will prepare a revenue enhancement plan for submission to the electorate on the June 2006 primary election ballot that will raise sufficient funds to pay for all legal and replacement pension benefits.
11. The City will pursue all third party claims to recover damages for breaches of duty owed to the City or the pension system.
12. The City Council will place on the June 2006 primary election ballot a Charter amendment that will require a majority vote of the City electorate to approve any increases in pension benefits.
13. The City Council will amend the Municipal Code to include a revised version of the Employee Retirement Income Security Act (ERISA), and the City Attorney will establish a separate group within the office to oversee the City's new pension plan.
14. The City will meet and confer about this plan with credit rating agencies and the SEC and based on these discussions make any agreed-to changes in the plan before it is implemented.
15. City will seek to mediate any and all disputes arising under this plan with interested parties in the context of resolving all outstanding litigation.

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